House of Representatives



General Assembly

File No. 537

February Session, 2004

Substitute House Bill No. 5666

House of Representatives, April 8, 2004

The Committee on Appropriations reported through REP. DYSON of the 94th Dist., Chairperson of the Committee on the part of the House, that the substitute bill ought to pass.

AN ACT CONCERNING THE AMOUNT OF UNAPPROPRIATED SURPLUS TRANSFERRED TO THE BUDGET RESERVE FUND, THE TRANSFER OF PROJECTED SURPLUS TO THE BUDGET RESERVE FUND, THE AUTHORITY OF THE TREASURER WITH RESPECT TO THE USE OF UNAPPROPRIATED SURPLUS IN EXCESS OF THAT TRANSFERRED TO THE BUDGET RESERVE FUND, THE ESTABLISHMENT OF AN ACCOUNT TO FUND THE TWENTY-SEVENTH STATE PAYROLL PERIOD, AND THE GOVERNOR'S RECOMMENDATIONS FOR RESPONSIBLE GOVERNMENT.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

- 1 Section 1. Section 4-30a of the general statutes, as amended by
- 2 section 56 of public act 03-2, is repealed and the following is
- 3 substituted in lieu thereof (*Effective July 1, 2004*):
- 4 (a) [After] The Budget Reserve Fund shall be funded as follows: (1)
- 5 If the cumulative financial monthly statement issued by the
- 6 Comptroller pursuant to section 3-115 includes a revised, estimated
- 7 projected surplus resulting from an increase in estimated budgeted
- 8 revenue, the Treasurer shall transfer, during such month, one-twelfth

9 the amount of such surplus to the Budget Reserve Fund; (2) after the 10 accounts for the General Fund have been closed for the fiscal year 11 ending June 30, 2004, and each fiscal year thereafter, and the 12 Comptroller has determined the amount of unappropriated surplus in 13 said fund, after any amounts required by provision of law to be 14 transferred for other purposes have been deducted, the amount of such 15 surplus shall be transferred by the [State] Treasurer to a special fund to 16 be known as the Budget Reserve Fund. When the amount in said fund 17 equals [ten] fifteen per cent of the net General Fund appropriations for 18 the fiscal year in progress, no further transfers shall be made by the 19 Treasurer to said fund and the amount of such surplus in excess of that 20 transferred to said fund shall be deemed to be appropriated: [to] (A) 21 To the State Employees Retirement Fund, in addition to the 22 contributions required pursuant to section 5-156a, [but not exceeding 23 five per cent of the unfunded past service liability of the system as set 24 forth in the most recent actuarial valuation certified by the Retirement 25 Commission. Such surplus in excess of the amounts transferred to the 26 Budget Reserve Fund and the state employees retirement system shall 27 be deemed to be appropriated for: (1) Redeeming in such amounts 28 deemed by the Treasurer to be in the best interests of the state; (B) to 29 the Teachers' Retirement Fund, in addition to the contribution required 30 pursuant to section 10-183z, in such amounts deemed by the Treasurer 31 to be in the best interests of the state; (C) to redeem prior to maturity 32 any outstanding indebtedness of the state selected by the Treasurer in 33 the best interests of the state; [(2) purchasing] (D) to purchase 34 outstanding indebtedness of the state in the open market at such prices 35 and on such terms and conditions as the Treasurer shall determine to 36 be in the best interests of the state for the purpose of extinguishing or 37 defeasing such debt; [(3) providing] (E) for the defeasance of any 38 outstanding indebtedness of the state selected by the Treasurer in the 39 best interests of the state by irrevocably placing with an escrow agent 40 in trust an amount to be used solely for, and sufficient to satisfy, 41 scheduled payments of both interest and principal on such 42 indebtedness; or [(4)] (F) any combination of these methods. Pending 43 the use or application of such amount for the payment of interest and

44 principal, such amount may be invested in [(A)] (i) direct obligations of 45 the United States government, including state and local government 46 treasury securities that the United States Treasury issues specifically to 47 provide state and local governments with required cash flows at yields 48 that do not exceed Internal Revenue Service arbitrage limits, [(B)] (ii) 49 obligations guaranteed by the United States government, and [(C)] (iii) 50 securities backed by United States government obligations as collateral 51 and for which interest and principal payments on the collateral 52 generally flow immediately through to the security holder.

- (b) Moneys in said Budget Reserve Fund shall be expended only as provided in this subsection. When in any fiscal year the Comptroller has determined the amount of a deficit applicable with respect to the immediately preceding fiscal year, to the extent necessary, the amount of funds credited to said Budget Reserve Fund shall be deemed to be appropriated for purposes of funding such deficit.
- (c) The Treasurer is authorized to invest all or any part of said fund
 in accordance with the provisions of section 3-31a. The interest derived
 from the investment of said fund shall be credited to the General Fund.
 - Sec. 2. (NEW) (Effective from passage) There is established the "GAAP Salary Reserve Account" which shall be a separate nonlapsing account within the General Fund. The purpose of the account is to provide funds required for the additional state payroll period occurring every eleventh fiscal year. For the fiscal year beginning July 1, 2005, and each fiscal year thereafter, the General Assembly shall appropriate one-tenth of the estimated cost of such additional payroll period, except for the fiscal years beginning July 1, 2005, to July 1, 2009, inclusive, the General Assembly shall appropriate two-tenths of such estimated cost.
- Sec. 3. (NEW) (Effective July 1, 2004) (a) During the month of November of each year, the joint standing committees of the General Assembly having cognizance of matters relating to appropriations and the budgets of state agencies and finance, revenue and bonding shall meet to receive and review testimony from the Secretary of the Office of Policy and Management, the director of the legislative Office of

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Fiscal Analysis, and any other persons they deem appropriate, concerning the items submitted in accordance with subsection (b) of this section.

(b) On or before November first of each year, the Secretary of the Office of Policy and Management and the director of the legislative Office of Fiscal Analysis shall each submit to the joint standing committees of the General Assembly having cognizance of matters relating to appropriations and the budgets of state agencies and finance, revenue and bonding: (1) An estimate of state revenues, expenditures and ending balance in each fund for the current biennium and the next three fiscal years thereafter, together with the assumptions on which such estimates are based; (2) the projected tax credits to be utilized in the current biennium and the next three fiscal years thereafter, together with the assumptions on which such projections are based; (3) a description of any projected deficiencies in the current fiscal year and the reasons for them, together with the assumptions upon which such estimates are based; (4) the projected balance in the Budget Reserve Fund at the end of the current fiscal year, the current biennium and the next three fiscal years thereafter; (5) the projected bond authorizations, allocations and issuances in each of the next five fiscal years and their impact on the debt service of the major funds of the state; (6) an analysis of revenue and expenditure trends and of the major cost drivers affecting state spending, including identification of any areas of concern and efforts undertaken to address such areas, including, but not limited to, efforts to obtain federal funds; and (7) an analysis of possible uses of surplus funds, including, but not limited to, the Budget Reserve Fund, debt retirement and funding of pension liabilities.

Sec. 4. (NEW) (Effective July 1, 2004) (a) In an odd-numbered year, a biennial state budget for the ensuing two fiscal years shall be enacted on or before the fourteenth calendar day before the mandatory adjournment of any regular session of the General Assembly, and if a biennial state budget for the ensuing two fiscal years has not been enacted, no business other than the adoption of such budget, together

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with any necessary revenue adjustments and statutory changes, shall be considered or acted upon by the General Assembly until such budget has been enacted.

- (b) In an even-numbered year, an adjustment to the biennial budget for the ensuing fiscal year, if required, shall be enacted on or before the seventh calendar day before the mandatory adjournment of any regular session of the General Assembly, and if any such adjustment to the biennial budget has not been enacted, no business other than the adoption of such adjustment, together with any necessary revenue adjustments and statutory changes, shall be considered or acted upon by the General Assembly until such adjustment has been enacted.
- Sec. 5. Section 4-30a of the general statutes, as amended by section 56 of public act 03-2, is repealed and the following is substituted in lieu thereof (*Effective from passage*):
- 125 (a) After the accounts for the General Fund have been closed for 126 each fiscal year and the Comptroller has determined the amount of 127 unappropriated surplus in said fund, after any amounts required by 128 provision of law to be transferred for other purposes have been 129 deducted, the amount of such surplus shall be transferred by the State 130 Treasurer to a special fund to be known as the Budget Reserve Fund. 131 When the amount in said fund equals ten per cent of the net General 132 Fund appropriations for the fiscal year in progress, no further transfers 133 shall be made by the Treasurer to said fund and the amount of such 134 surplus in excess of that transferred to said fund shall be deemed to be 135 appropriated to the State Employees Retirement Fund, in addition to 136 the contributions required pursuant to section 5-156a, but not 137 exceeding five per cent of the unfunded past service liability of the 138 system as set forth in the most recent actuarial valuation certified by 139 the Retirement Commission. Such surplus in excess of the amounts 140 transferred to the Budget Reserve Fund and the state employees 141 retirement system shall be deemed to be appropriated for: (1) 142 Redeeming prior to maturity any outstanding indebtedness of the state 143 selected by the Treasurer in the best interests of the state; (2)

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purchasing outstanding indebtedness of the state in the open market at such prices and on such terms and conditions as the Treasurer shall determine to be in the best interests of the state for the purpose of extinguishing or defeasing such debt; (3) providing for the defeasance of any outstanding indebtedness of the state selected by the Treasurer in the best interests of the state by irrevocably placing with an escrow agent in trust an amount to be used solely for, and sufficient to satisfy, scheduled payments of both interest and principal on such indebtedness; or (4) any combination of these methods. Pending the use or application of such amount for the payment of interest and principal, such amount may be invested in (A) direct obligations of the United States government, including state and local government treasury securities that the United States Treasury issues specifically to provide state and local governments with required cash flows at yields that do not exceed Internal Revenue Service arbitrage limits, (B) obligations guaranteed by the United States government, and (C) securities backed by United States government obligations as collateral and for which interest and principal payments on the collateral generally flow immediately through to the security holder.

(b) On and after July 1, 2005, to June 30, 2009, inclusive, whenever the balance in the Budget Reserve Fund at the start of any fiscal year is less than five per cent of the net General Fund appropriations for that fiscal year, the Treasurer shall, within ten days of the start of the fiscal year, transfer the sum of fifty million dollars to the Budget Reserve Fund from the resources of the General Fund. The revenue estimates supporting any biennial general fund budget or mid-term adjustment to such budget shall include sufficient funds, in excess of appropriations, for any transfer required by this subsection.

(c) On and after July 1, 2009, whenever the balance in the Budget Reserve Fund at the start of any fiscal year is less than five per cent of the net General Fund appropriations for that fiscal year, the Treasurer shall, within ten days of the start of the fiscal year, transfer the sum of one hundred million dollars to the Budget Reserve Fund from the resources of the General Fund. The revenue estimates supporting any

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178 <u>biennial general fund budget or mid-term adjustment to such budget</u>

- 179 shall include sufficient funds, in excess of appropriations, for any
- 180 <u>transfer required by this subsection.</u>
- [(b)] (d) Moneys in said Budget Reserve Fund shall be expended
- only as provided in this subsection. When in any fiscal year the
- 183 Comptroller has determined the amount of a deficit applicable with
- 184 respect to the immediately preceding fiscal year, to the extent
- 185 necessary, the amount of funds credited to said Budget Reserve Fund
- shall be deemed to be appropriated for purposes of funding such
- 187 deficit.
- [(c)] (e) The Treasurer is authorized to invest all or any part of said
- 189 fund in accordance with the provisions of section 3-31a. The interest
- 190 derived from the investment of said fund shall be credited to the
- 191 General Fund.
- 192 Sec. 6. Section 4-66a of the general statutes is repealed and the
- 193 following is substituted in lieu thereof (*Effective July 1, 2004*):
- 194 (a) The Secretary of the Office of Policy and Management shall
- 195 advise the Governor on matters concerning local government
- including state laws relating to local government, the impact of federal
- actions or proposed federal actions on local government, the financial
- 198 needs and resources of local government and the allocation of program
- and financial responsibility between local government and the state.
- 200 (b) The secretary shall advise the Governor regarding potential
- 201 federal actions affecting state government and the citizens of the state
- and shall advise the joint standing committees of the General
- 203 Assembly having cognizance of matters relating to appropriations and
- 204 relating to the subject area of each federal policy initiative, including
- the allocation of resources in the federal budget, federal public
- assistance policy, federal economic policy and the distribution of
- 207 federal assistance and facilities among regions and states.
- 208 (c) The secretary shall develop and implement a program, within

state financial limitations and consistent with the best interest of the state, to increase the level of federal funds accessed by the state,

- 211 <u>including, but not limited to, competitive grants, incentive payments,</u>
- 212 performance bonuses, the maximization of federal funds and
- 213 <u>applications for new resources, when available.</u>

Governor and the General Assembly.

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- 214 (d) The secretary shall: (1) Identify state programs and services 215 eligible for federal funding and the requirements associated with such 216 programs; (2) require the head of each budgeted agency to develop 217 and carry out a plan for maximizing the federal revenue available to such agency; (3) establish a system for the review and approval of state 218 219 agency applications for federal funds, in order to determine the long-220 term costs of such grants, the availability of any required state funds 221 and whether accepting the grant in the interest of the state; (4) monitor budgeted agencies' success in obtaining and utilizing available federal 222 223 funds; (5) identify obstacles preventing the state from qualifying for 224 additional federal funding; and (6) monitor federal legislative and 225 regulatory actions for their impact on state programs, services and 226 receipt of federal assistance and recommend appropriate actions to the
 - (e) Notwithstanding any provision of the general statutes, the secretary may require the head of any agency in the executive branch to implement any policy, programmatic or regulatory action, including the adopting or amending of regulations pursuant to chapter 54, which the secretary deems (1) necessary and appropriate in order to, within state financial limitations, maximize the state's utilization of federal funds; and (2) in the best interest of the state.
 - [(c)] (f) The secretary may provide planning and management assistance to local governments utilizing such state and federal funds as may be appropriated for such purpose.
 - [(d)] (g) The secretary shall encourage each department of state government which deals with local governments to provide technical assistance in their areas of specialization. The secretary shall advise local officials on programs of state and federal assistance for which

local governments are eligible and provide assistance, when requested, in applying for such assistance.

- [(e)] (h) The secretary shall require that notice be given to [him] <u>said</u> <u>secretary</u> of all applications for federal financial assistance or for any gift, contribution, income from trust funds, or other aid from any private source submitted by the state, or any agency thereof, authorities and development agencies. The secretary may require that notice be given [him] <u>said secretary</u> of all applications for federal financial assistance submitted by municipalities or any agency thereof. The secretary may require that any notice of application for federal financial assistance be accompanied by an urban impact statement, on a form furnished by said secretary, indicating that the project or program for which such application is being made has been reviewed in accordance with the goals set forth in section 4-66b. Ongoing fundraising from any private source by an institution of higher education shall not constitute an application under the terms of this section.
- 258 [(f)] (i) The Secretary of the Office of Policy and Management is 259 authorized to do all things necessary to apply for and accept federal 260 funds allotted or available to the state under any federal act or 261 program which could support activities which the secretary is 262 authorized to undertake. [He] The secretary shall administer such 263 funds in accordance with state and federal law. The secretary, in 264 consultation with the executive director of Connecticut Innovations, 265 Incorporated, or the Commissioner of Economic and Community 266 Development, when applicable, may apply for all federal funds 267 available to the state for defense conversion projects and other projects 268 consistent with a defense conversion strategy.
- Sec. 7. Section 2-24a of the general statutes is repealed and the following is substituted in lieu thereof (*Effective July 1, 2004*):
- No bill without a fiscal note appended thereto which, if passed, would require the expenditure of state or municipal funds or affect state or municipal revenue in the current fiscal year or any of the next five succeeding fiscal years shall be acted upon by either house of the

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275 General Assembly unless said requirement of a fiscal note is dispensed

- with by a vote of at least two-thirds of such house. The fiscal note shall
- 277 <u>clearly identify the cost and revenue impact to the state and</u>
- 278 municipalities in the current fiscal year and in each of the next five
- 279 <u>succeeding fiscal years.</u>
- Sec. 8. Section 3-39a of the general statutes is repealed and the following is substituted in lieu thereof (*Effective July 1, 2004*):
- 282 Notwithstanding or limiting the provisions of section 13a-166, the 283 State Comptroller, with the approval of the Secretary of the Office of 284 Policy and Management for any amount over one hundred thousand 285 dollars, shall record as receivable in the appropriate fund or funds of 286 the state any sums of money which, by written commitment in a form 287 acceptable to the State Comptroller, the federal government, any other 288 state, any subdivision or agency of this state or any other state, any 289 corporation or any person becomes obligated to pay to the state in 290 connection with any programs federally supported in whole or in part, 291 or any works of improvement undertaken or to be undertaken by the 292 state and which are expendable by the state for such programs or 293 works of improvement. Such receivables when so recorded shall be 294 deemed to be appropriated for the purpose or purposes designated in 295 such commitments and shall be subject to allotment according to law, 296 except that no gift, contribution, income from trust funds, or other aid 297 from any private source or from the federal government that is 298 recorded as a receivable shall require allotment, unless there is a notice 299 by the Secretary of the Office of Policy and Management that the state 300 agency receiving such funding has failed to consistently provide the 301 notifications required in subsection [(e)] (h) of section 4-66a, as 302 amended by this act.
- Sec. 9. Subsection (a) of section 4-31a of the general statutes is repealed and the following is substituted in lieu thereof (*Effective July* 305 1, 2004):
- 306 (a) Any gift, contribution, income from trust funds, or other aid 307 from any private source or from the federal government, except federal

aid for highway and bridge purposes or federal funds in the possession of the Board of Control of the Connecticut Agricultural Experiment Station, the Board of Trustees of the University of Connecticut, the Board of Trustees of the Connecticut State University System, the Board of Trustees of the Community-Technical Colleges, or the Employment Security Division of the Labor Department, or any other gift, grant or trust fund in the possession of any of said boards, shall be entered upon the records of the General Fund in the manner prescribed by the Secretary of the Office of Policy and Management. When so recorded, such amounts shall be deemed to be appropriated to the purposes of such gift, contribution or other aid and shall be allotted in accordance with law. No gift, contribution, income from trust funds, or other aid from any private source or from the federal government that is subject to this subsection shall require allotment, except upon a notice by the Secretary of the Office of Policy and Management that the state agency receiving such funding has failed to consistently provide the notifications required in subsection [(e)] (h) of section 4-66a, as amended by this act.

Sec. 10. Section 13a-166 of the general statutes is repealed and the following is substituted in lieu thereof (*Effective July 1, 2004*):

In accordance with procedures promulgated by the Secretary of the Office of Policy and Management for the purpose of supplementing the financing of the aggregate cost of construction of any highway or bridge, including planning, design and preliminary engineering, or the purchase of land in connection therewith financed in part by federal grants under the provisions of federal law the State Comptroller is authorized to record as receivables that portion of the federal grant apportionment to the state required to finance the federal share of the proposed project upon authorization of the proposed project by the Federal Highway Administration; and such amount, after deduction therefrom of such part of said federal share as may have been provided for under any appropriation available pursuant to part III of this chapter, is deemed to be appropriated for said purposes. No grant from the federal government that is recorded as a receivable pursuant

to this section shall require allotment, unless there is a notice by the Secretary of the Office of Policy and Management that the state agency receiving such funding has failed to consistently provide the notifications required in subsection [(e)] (h) of section 4-66a, as amended by this act.

This act shall take effect as follows:				
Section 1	July 1, 2004			
Sec. 2	from passage			
Sec. 3	July 1, 2004			
Sec. 4	July 1, 2004			
Sec. 5	from passage			
Sec. 6	July 1, 2004			
Sec. 7	July 1, 2004			
Sec. 8	July 1, 2004			
Sec. 9	July 1, 2004			
Sec. 10	July 1, 2004			

Statement of Legislative Commissioners:

Sections 8, 9 and 10 were added to correct a statutory reference that is changed by section 6.

APP Joint Favorable Subst.

The following fiscal impact statement and bill analysis are prepared for the benefit of members of the General Assembly, solely for the purpose of information, summarization, and explanation, and do not represent the intent of the General Assembly or either House thereof for any purpose:

OFA Fiscal Note

State Impact:

Agency Affected	Fund-Effect	FY 05 \$	FY 06 \$	FY 07 \$
Resources of the	GF - Cost	None	See Below	See Below
General Fund				
GAAP Salary	GF - Revenue	None	See Below	See Below
Reserve Account	Gain			
Budget Reserve	GF - Revenue	None	See Below	See Below
Fund	Gain			
Legislative	GF - Cost	Potential	Potential	Potential
Mgmt.		Minimal	Minimal	Minimal
Policy & Mgmt.,	GF - None	None	None	None
Off.				
Various State	GF - Revenue	Potential	Potential	Potential
Agencies	Gain	Significant	Significant	Significant
Treasurer	GF - Savings	See Below	See Below	See Below

Note: GF=General Fund

Municipal Impact: None

Explanation

Section 1 could result in savings where the Treasurer has determined that the long-term fiscal impact from using General Fund surplus monies to reduce the unfunded liability of the State Employees Retirement Fund and/or the Teachers' Retirement Fund is greater than the use of surplus for the retirement of debt.

The average rate of return for the State Employees Retire Fund and the Teachers' Retirement Fund over the last 10 years is 8%. The average interest rate for General Obligation bonds is currently about 4%.

The provision raising from 10% to 15% the cap on the Budget Reserve Fund has no fiscal impact on the General Fund because it would only be effective for years in which there was a budget surplus.

Section 2 establishes a separate nonlapsing account within the General Fund called the GAAP Salary Reserve Account. Approximately, every eleventh year there is one additional state pay period. The next additional pay period is estimated to occur in 2009. This "27th pay period" will cost approximately \$100 million in 2009. This section requires that the General Assembly set aside, beginning in FY 06, approximately \$25 million each fiscal year through FY 10, to cover the cost of the additional pay period in 2009. After FY 10, the bill requires that the additional pay period set aside in each fiscal year be one-tenth of the estimated cost of "27th pay period."

Section 3 requires the committees of Appropriations and Finance, Revenue and Bonding to meet and receive testimony from the Secretary of the Office of Policy and Management (OPM) and the Director of the legislative Office of Fiscal Analysis (OFA) each November. It is anticipated that OPM and OFA can produce the analysis specified in the bill within the normal budgetary resources of each agency. The November joint committee meeting will result in minimal costs to Legislative Management for legislator mileage reimbursement.

Section 4 requires that in odd numbered years the General Assembly must enact a biennial state budget fourteen calendar days prior to the end of session, otherwise no other business can be taken up. The bill requires that in even numbered years, an adjustment to the biennial budget, if required, shall be enacted seven days prior to the end of session otherwise no other business can be taken up. These requirements result in no fiscal impact.

Section 5 - In the absence of any unappropriated surplus being deposited in the Budget Reserve Fund (BRF) in accordance with the provisions of Article XXVIII of the Amendments to the state constitution, this section would require a transfer from General Fund resources of \$50 million per year (which would need to be supported by additional revenues) with the potential for this amount to grow to \$100 million beginning in FY 10 until the amount within the BRF

reaches 5% of net General Fund appropriations. For purposes of comparability, 5% of FY 05 net General Fund appropriations (which total \$13,274.3 million based on current law) would equal \$663.7 million.

Section 6 requires OPM to develop and implement a program to increase the level of funds accessed by the state within state financial resources and consistent with the best interest of the state. It is anticipated that there is no fiscal impact to OPM or state agencies attempting to maximize federal funds, as this must be accomplished within state financial resources. To the extent agencies are successful in obtaining federal funds they would not have otherwise identified or applied for, a potentially significant revenue gain may result.

Section 7 requires the fiscal notes on bills considered by the General Assembly to identify the state and municipal fiscal impact for the current fiscal year and the next five succeeding years. Currently, OFA analyzes bills and provides the fiscal impact on the fiscal years impacted by a bill, requiring OFA to provide fiscal impact for a specified period of time results in no fiscal impact.

Sections 8, 9 and 10 make technical and conforming changes which result in no fiscal impact.

OFA Bill Analysis

sHB 5666

AN ACT CONCERNING THE AMOUNT OF UNAPPROPRIATED SURPLUS TRANSFERRED TO THE BUDGET RESERVE FUND, THE TRANSFER OF PROJECTED SURPLUS TO THE BUDGET RESERVE FUND, THE AUTHORITY OF THE TREASURER WITH RESPECT TO THE USE OF UNAPPROPRIATED SURPLUS EXCESS OF THAT TRANSFERRED TO THE BUDGET RESERVE FUND, THE ESTABLISHMENT OF AN ACCOUNT TO FUND THE TWENTY-SEVENTH STATE PAYROLL PERIOD. AND GOVERNOR'S RECOMMENDATIONS FOR RESPONSIBLE GOVERNMENT.

SUMMARY:

The bill allows the Treasurer to decide whether it is in the state's best interest to use surplus money to reduce the unfunded pension liability in the State Employees Retirement Fund and the Teachers' Retirement Fund or bonded indebtedness.

The bill transfers one-twelfth of the estimated projected budget surplus, as indicated on the Comptroller's cumulative financial monthly statement, to the Budget Reserve Fund.

It removes the restriction that limited the reduction in unfunded pension liability for the State Employees Retirement Fund to 5% of unfunded prior service liability.

The bill raises from 10% to 15% the cap on the Budget Reserve Fund.

The bill also requires the committees of Appropriations and Finance, Revenue and Bonding to meet and receive testimony on certain items specified in the bill, from the Secretary of the Office of Policy and Management (OPM) and the Director of the legislative Office of Fiscal Analysis (OFA) each November.

The bill establishes a separate nonlapsing account within the General Fund called the GAAP Salary Reserve Account. Approximately every eleventh year there is one additional state pay period. The next additional pay period is estimated to occur in 2009. This section

requires that the General Assembly set aside two-tenths of the estimated cost of the additional pay period in each fiscal year from FY 06 through FY 10. After 2010, the bill requires that the additional pay period set aside in each fiscal year be one-tenth of the estimated cost of "27th pay period."

The bill requires that from FY 06 through FY 09 if the Budget Reserve Fund (BRF) balance at the start of a fiscal year is less than 5% of the net General Fund appropriations for that fiscal year, \$50 million shall be transferred from the General Fund to the BRF. The \$50 million transfer to the BRF would need to be supported by additional revenues.

It also requires that beginning in FY 10 if the BRF balance at the start of a fiscal year is less than 5% of the net General Fund appropriations for that fiscal year, \$100 million shall be transferred from the General Fund to the BRF. The \$100 million transfer to the BRF would need to be supported by additional revenues.

The bill prohibits the General Assembly from taking up other business if they fail to enact a biennial budget within fourteen calendar days in odd numbered years, and seven calendar days in even numbered years.

The bill requires OPM to develop and implement a program to increase the level of funds accessed by the state within state financial resources and consistent with the best interest of the state.

Additionally, the bill specifies that fiscal notes on bills considered by the General Assembly must identify the state and municipal fiscal impact for the current fiscal year and the next five succeeding years.

EFFECTIVE DATE: All sections are effective on July 1, 2004, except sections 2 and 5, which are effective upon passage.

BACKGROUND

Article 28, Section 18(c) of the Connecticut Constitution requires that unappropriated General Fund surplus go to the Budget Reserve (Rainy Day) Fund or to the reduction of bonded indebtedness or any other purpose authorized by at least three-fifths of the members of each house of the General Assembly. The constitutional amendment became

effective 11/25/92.

CGS Sec. 4-30a requires a transfer of unappropriated surplus to the Budget Reserve Fund to raise the balance to 10% of net General Fund appropriations. Any additional surplus must be used to reduce unfunded pension liability in the State Employees Retirement Fund by up to 5% of unfunded prior service liability, followed by reduction of bonded indebtedness. The section became effective 6/10/92.

Because the effective date of Article 28, Section 18(c) is more recent than CGS Sec. 4-30a, the constitutional amendment controls use of unappropriated General Fund surplus and renders inoperative the portion of CGS Sec. 4-30a that transfers surplus to the pension fund.

The bill permits the Treasurer to decide whether it is in the state's best interest to use unappropriated surplus to reduce unfunded pension liability or bonded indebtedness.

Since the bill includes a use not specified in the constitutional amendment (i.e., reduction of the unfunded pension liability), it must be authorized by at least three-fifths of the members of each house of the General Assembly.

COMMITTEE ACTION

Appropriations Committee

Joint Favorable Substitute Yea 49 Nay 0